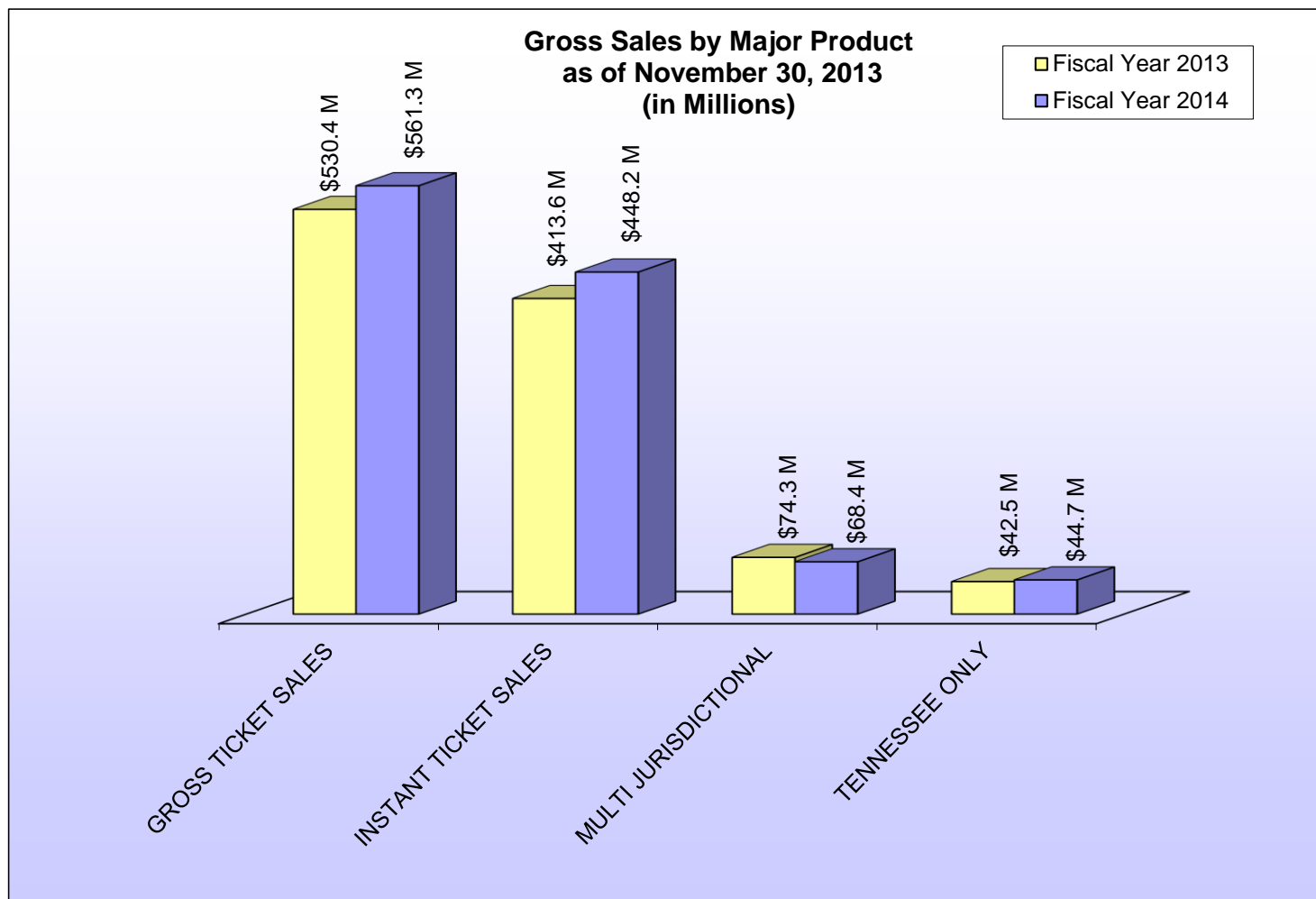


**TENNESSEE EDUCATION LOTTERY CORPORATION**  
**Funding Board**  
**December 10, 2013**

**ESTIMATION OF**  
**TOTAL AND NET LOTTERY PROCEEDS**  
**FOR FISCAL YEARS ENDING**  
**JUNE 30, 2014, 2015, 2016, 2017 and 2018**

**TENNESSEE EDUCATION LOTTERY CORPORATION**  
**ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

**FISCAL YEAR ENDING JUNE 30, 2014**



Gross ticket sales at November 30, 2013 were \$561.3 million or \$25.7 million per week compared to the prior year of \$530.4 million or \$24.3 million per week, representing a year over year increase of 5.8%.

*Instant ticket sales* were \$448.2 million or \$20.5 million per week at November 30, 2013 compared to \$413.6 million or \$18.9 million per week the prior year, representing an 8.4% increase in instant ticket sales year over year.

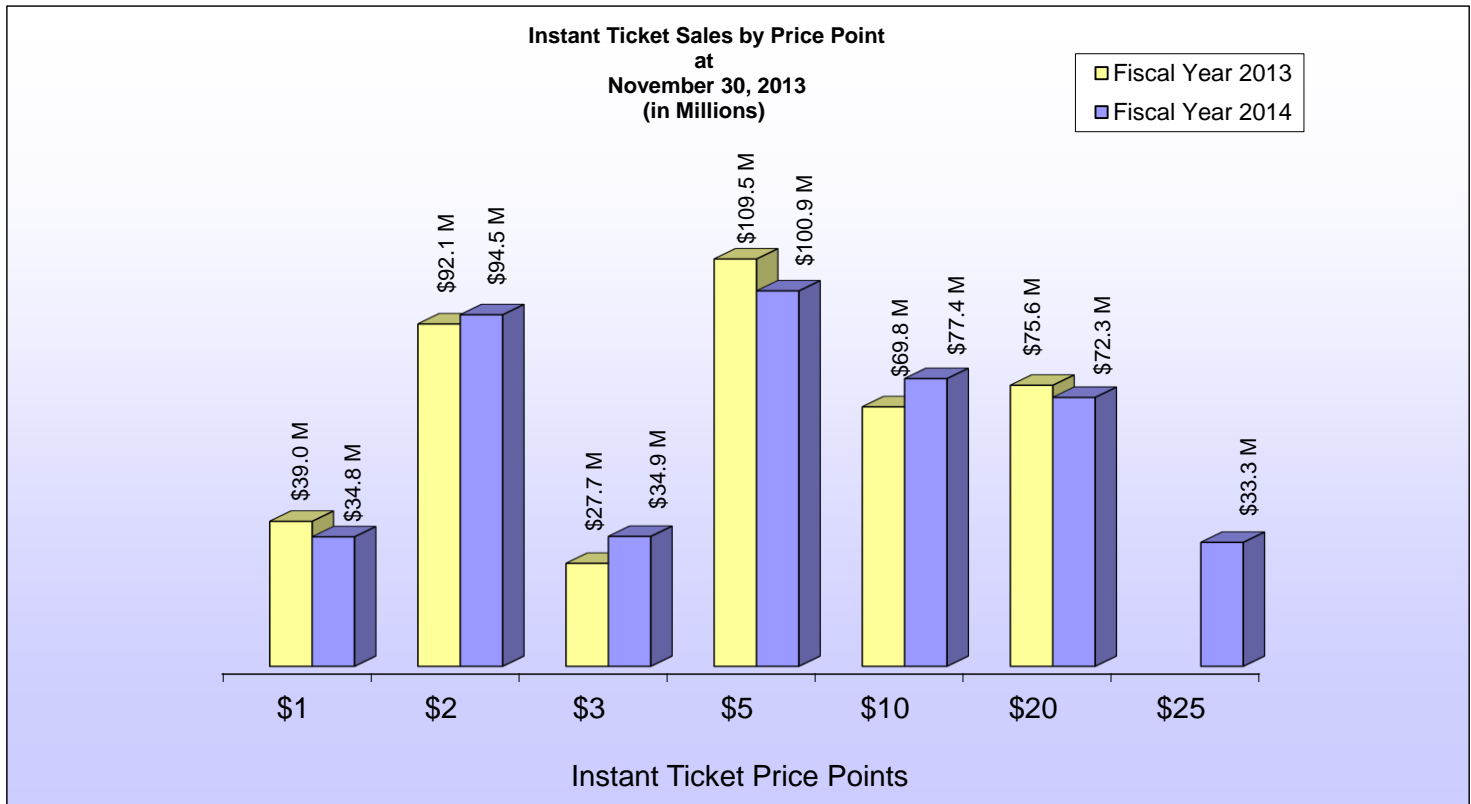
Multi-jurisdictional games, *Powerball*, *Mega Millions* and *Hot Lotto*, were \$68.4 million compared to \$74.3 million. The decline in this category is due to current year sales for *Powerball* being lower than the prior year, which included a \$587.5 million *Powerball* jackpot.

Tennessee Only games, *Cash 3*, *Cash 4* and *Tennessee Cash*, are 5.2% ahead of last year. At November 30, 2013, sales for this category were \$44.7 million compared to the prior period's \$42.5 million. All three products in this category are slightly ahead of the prior year.

**TENNESSEE EDUCATION LOTTERY CORPORATION  
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

**FISCAL YEAR ENDING JUNE 30, 2014**

	<b>As of 11/30/13 (in millions)</b>	<b>Projected Annual Sales Range (in millions)</b>
<b><i>INSTANT GAMES</i></b>	\$ 448.2	\$1,154.0 - \$1,165.0



- Instant tickets are projected to be between \$1,154.0 million and \$1,165.0 million. Instant tickets are projected to be approximately 80% of revenues, with prize expense payout percentage to increase approximately 1% year over year to 68.5%.
- In April 2013, TEL launched its first \$25 price point product, \$5 Million Spectacular, featuring the largest top prize of any instant game in Tennessee Lottery history. In May 2013, the popular Jumbo Bucks Seasons series was launched at the \$3 price point. These products are expected to remain in the market for the remainder of fiscal year 2014.
- TEL anticipates launching approximately 47 games in fiscal year 2014 including a special 10<sup>th</sup> anniversary game and a \$30 price point game.

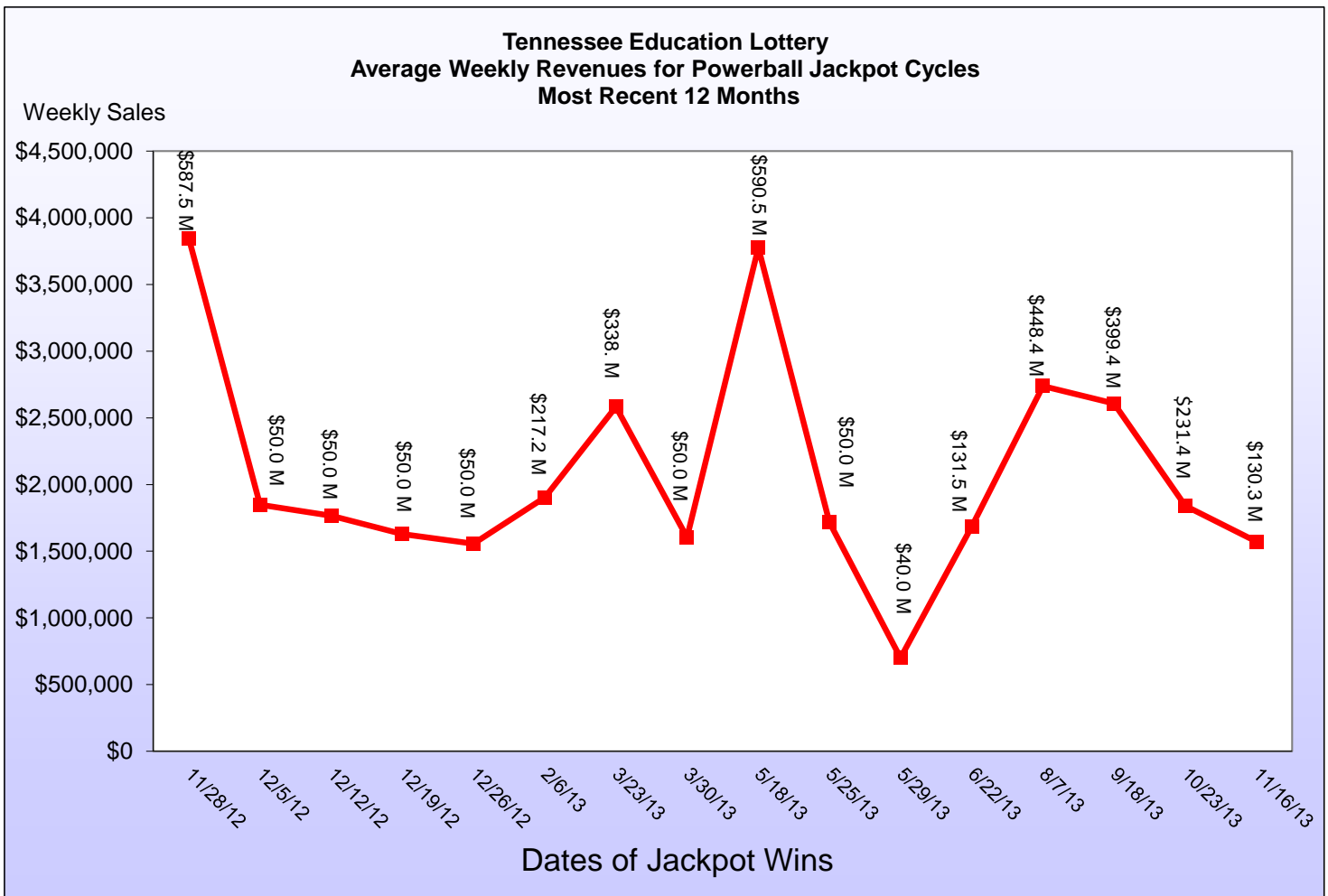
**TENNESSEE EDUCATION LOTTERY CORPORATION  
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

**FISCAL YEAR ENDING JUNE 30, 2014**

***MULTI-JURISDICTIONAL GAMES***

	<b>As of 11/30/13 (in millions)</b>	<b>Projected Annual Sales Range (in millions)</b>
<b><i>POWERBALL</i></b>	\$49.4	\$141.0 - \$149.0

- *Powerball* sales are averaging \$2.5 million per week through November 30, 2013.
- Multi-jurisdictional sales are directly impacted by the size of the games' jackpots.
- TEL's *Powerball* sales were \$49.4 million compared to the prior year's \$60.4 million. This decline is directly attributable to the \$587 million jackpot cycle experienced in November 2012.
- TEL's projected sales include two additional jackpots in the \$400 + million range for fiscal year 2014.

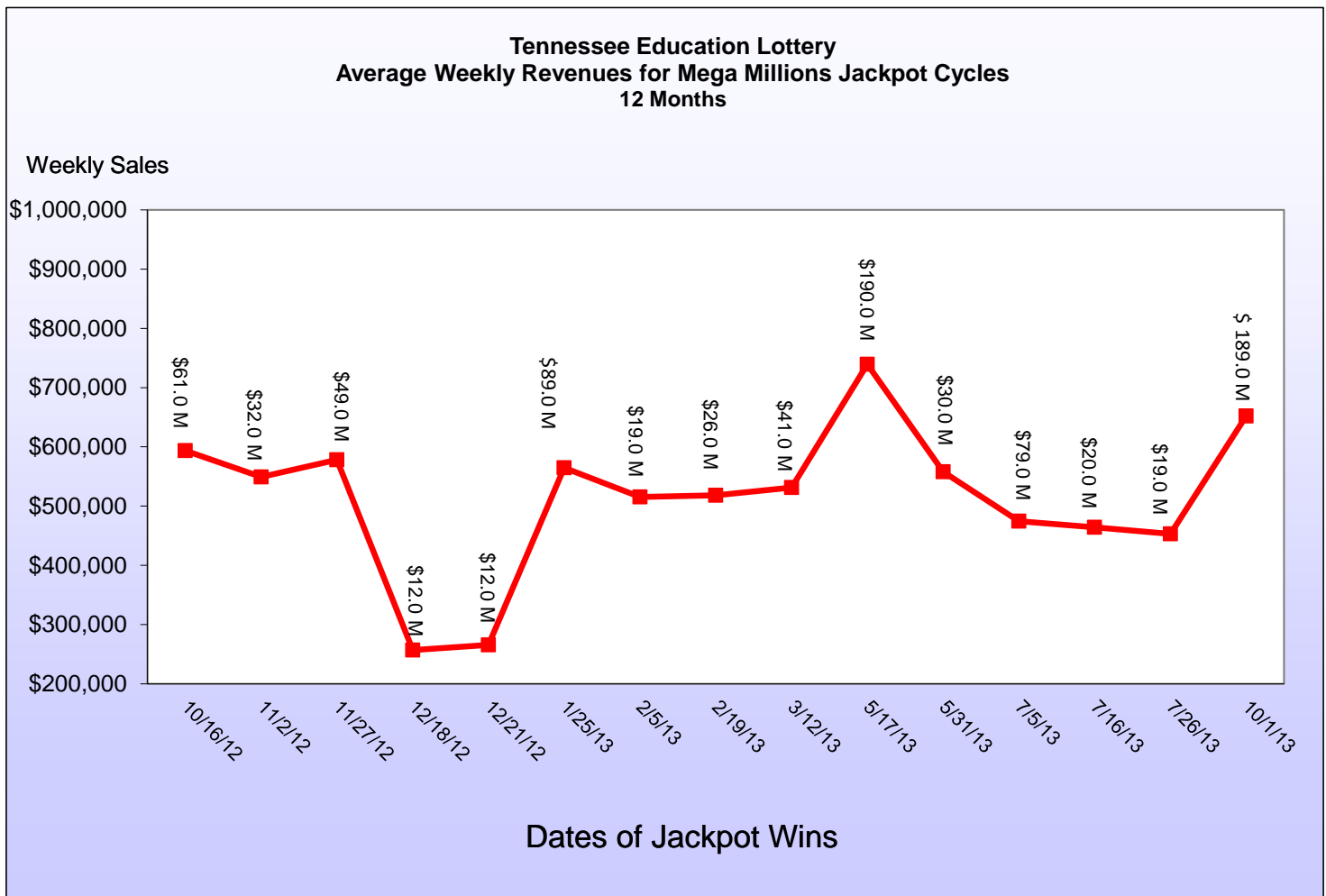


**TENNESSEE EDUCATION LOTTERY CORPORATION  
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

**FISCAL YEAR ENDING JUNE 30, 2014**

	<b>As of 11/30/13 (in millions)</b>	<b>Projected Annual Sales Range (in millions)</b>
<b>MEGA MILLIONS</b>	\$13.7	\$35.0 -\$40.0

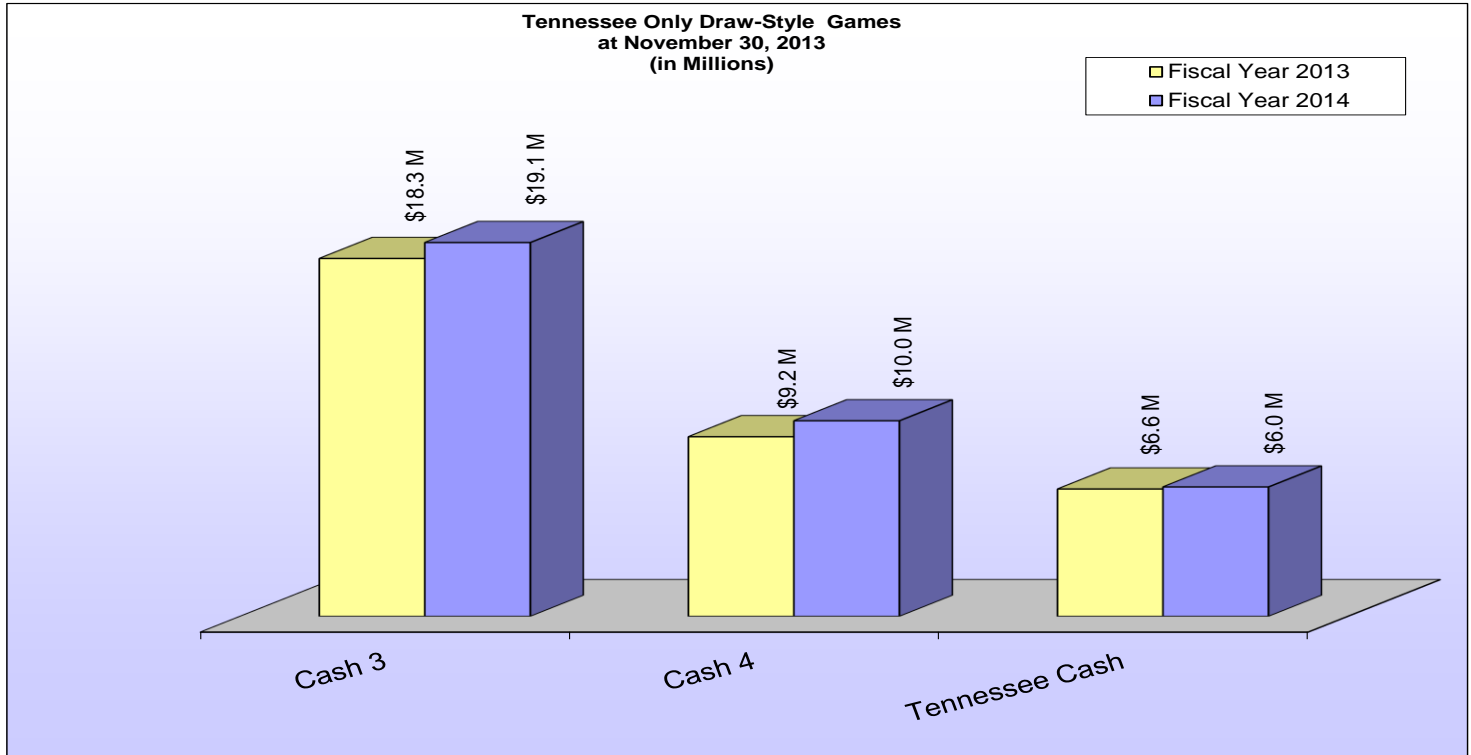
- *Mega Millions* sales are averaging \$633 thousand per week through November 30, 2013, with the largest jackpot to date of \$189 million.
- Starting with the October 22, 2013 drawing, Mega Millions players saw changes that include larger starting jackpots, faster growing jackpots, a million-dollar second prize and better odds of winning any prize. With these changes, TEL is projecting sales to be \$35 - \$40 million for fiscal year 2014.



**TENNESSEE EDUCATION LOTTERY CORPORATION  
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

**FISCAL YEAR ENDING JUNE 30, 2014**

	<b>As of 11/30/13 (in millions)</b>	<b>Projected Annual Sales Range (in millions)</b>
<b><i>TENNESSEE ONLY DRAWING-STYLE GAMES</i></b>	\$44.7	\$106.0 - \$108.0



**Cash 3 and Cash 4**

- *Cash 3* and *Cash 4* are daily drawing-style games drawn three (3) times daily, six (6) days a week, and once on Sunday.
- As of November 30, 2013, *Cash 3* and *Cash 4* sales weekly average of \$1.7 million is trending in line with the prior fiscal year.
- Fiscal year 2014 projected sales are \$58 million for *Cash 3* and \$29 million for *Cash 4*, which is consistent with the prior year.

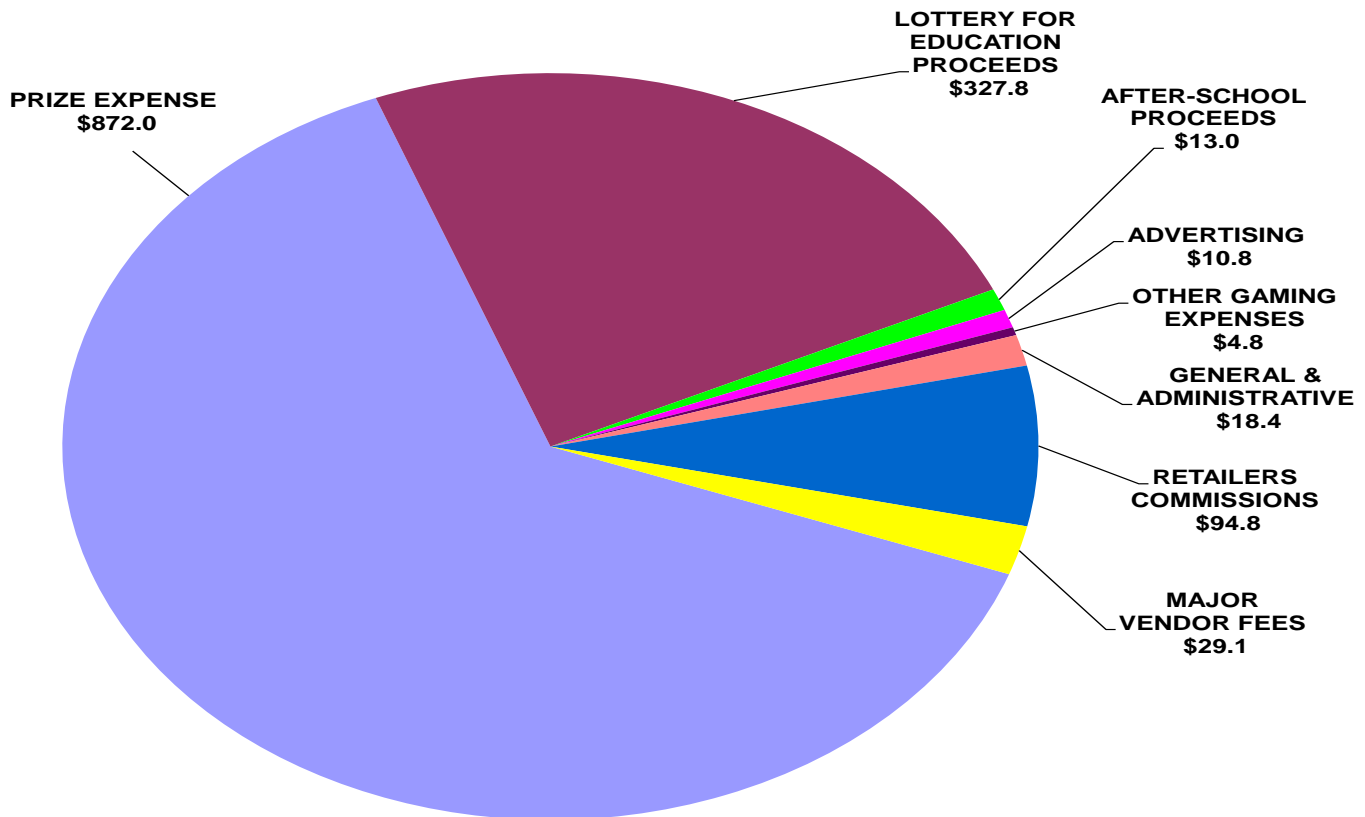
**Tennessee Cash**

- *Tennessee Cash* is a drawing-style cash jackpot game available only in Tennessee.
- TEL currently projects *Tennessee Cash* sales of \$20 - \$22 million for fiscal year 2014.

**TENNESSEE EDUCATION LOTTERY CORPORATION  
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

**FISCAL YEAR ENDING JUNE 30, 2014**

**FISCAL YEAR 2014 PROJECTED EXPENSES  
(in millions)**



**Direct Gaming-Related Expenses**

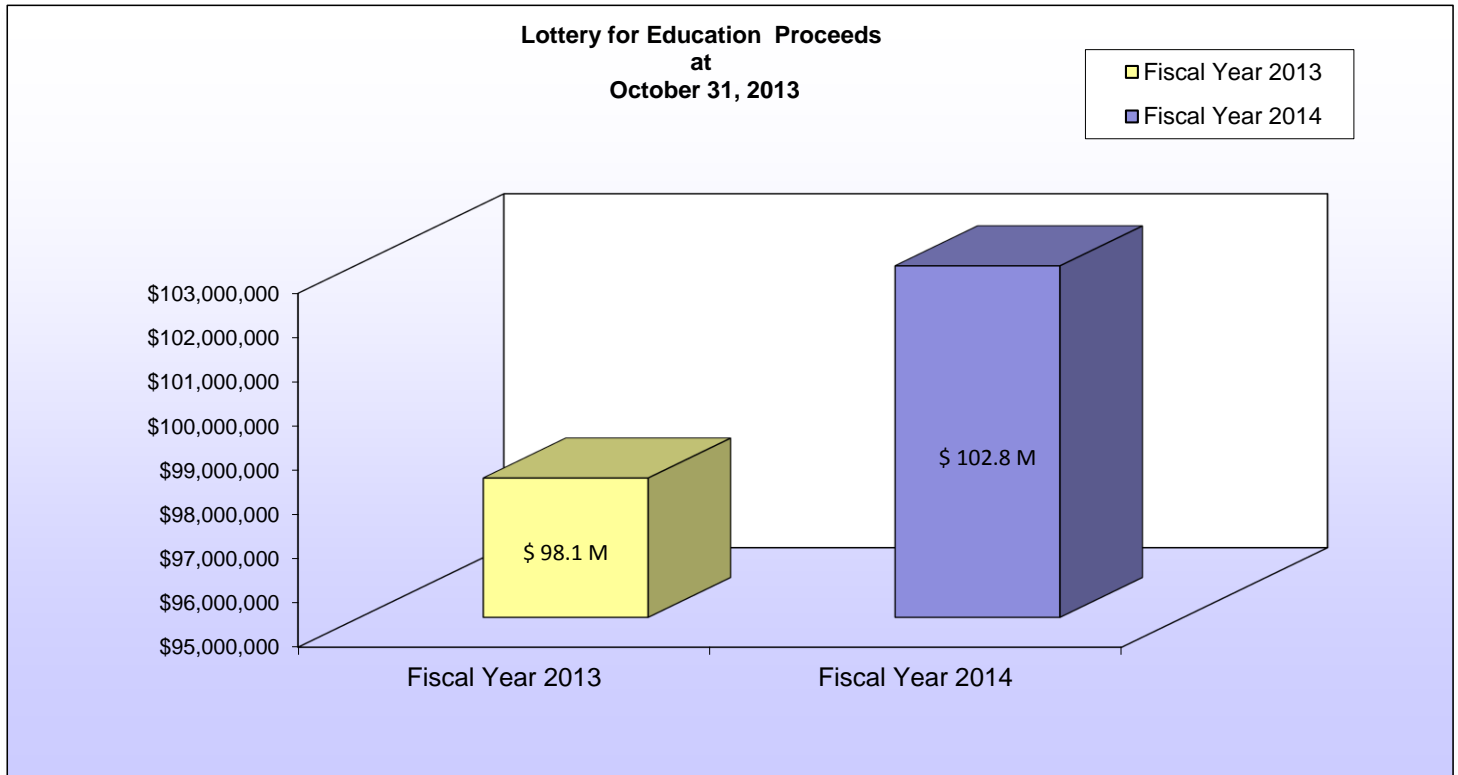
- Aggregate Prize Expense for Instant Games is projected at **68.5%** of Total Revenues.
- Aggregate Prize Expense for Drawing-style Games is projected at **50.0%** of Total Revenues.
- Aggregate Prize Expense for all Games is projected at **64.3%** of Total Revenues.
- Retailer sales commissions are **6.5%** of Gross Sales, with additional commissions for selling winning drawing-style tickets of \$1 million or more and cashing tickets for *Cash 3* and *Cash 4*.
- Gaming vendors' fees are a percentage of sales per the terms of each contract. The percentages are approximately **2.3%** on instant tickets and **1.24%** of net ticket sales of all drawing-style games.

**Non-Direct Expenses**

- Advertising is estimated at \$ **10.8** million or **.8%** of Gross Sales.
- Other Gaming is estimated at \$ **4.8** million or **.4%** of Gross Sales.
- General and Administrative is estimated at \$ **18.4** million, or **1.4%** of Gross Sales.

**TENNESSEE EDUCATION LOTTERY CORPORATION  
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

**FISCAL YEAR ENDING JUNE 30, 2014**



**Lottery for Education Proceeds**

- \$102.8 million as of 10/31/2013
- \$98.1 million as of 10/31/2012

**Projected Fiscal Year 2014 Range**

\$328 – \$333 Million

**After-School Program Proceeds**

- \$1.2 million as of 10/31/2013
- \$7.7 million as of 10/31/2012
- Represents actual/realized unclaimed monies
- Significantly impacted by: (1) timing of instant games' closings and (2) large drawing-style game prizes not claimed
- Fiscal year 2013 included unclaimed draw-style prizes at October 31, 2012 of \$1.8 million from large prizes that went unclaimed.
- Fiscal year 2013 included \$4 million from September 2012 instant games' close.

**Projected Fiscal Year 2014 Range**

\$13 - \$14 Million



**TENNESSEE EDUCATION LOTTERY CORPORATION  
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

**FISCAL YEAR ENDING JUNE 30, 2014**

		<b>Fiscal Year 2013 Actual</b>	<b>Fiscal Year 2014 Low Range</b>	<b>Fiscal Year 2014 High Range</b>	<b>Fiscal Year 2014 Approved Budget</b>
<b>Lottery Proceeds</b>					
<b>Sales:</b>					
	<b>Instant Games</b>	\$ 1,088,740,000	\$ 1,154,064,000	\$ 1,154,064,000	\$ 1,123,000,000
	<b>Drawing-Style Games</b>	278,797,000	299,707,000	311,695,000	280,145,000
	<b>Gross Ticket Sales</b>	\$ 1,367,537,000	\$ 1,453,771,000	\$ 1,465,759,000	\$ 1,403,145,000
<b>Free Tickets</b>					
	<b>Instant Games</b>	\$ (90,318,000)	\$ (98,095,000)	\$ (98,095,000)	\$ (101,070,000)
	<b>Drawing-Style Games</b>	\$ (1,998,000)	\$ (1,645,000)	\$ (1,711,000)	\$ (1,600,000)
	<b>Less: Tickets Provided as Prizes</b>	(92,316,000)	(99,740,000)	(99,806,000)	(102,670,000)
	<b>Net Ticket Sales</b>	\$ 1,275,221,000	\$ 1,354,031,000	\$ 1,365,953,000	\$ 1,300,475,000
	<b>Other Revenues</b>	5,146,000	4,100,000	4,200,000	3,615,000
	<b>Total Lottery Proceeds (Net Revenues)</b>	<b>\$ 1,280,367,000</b>	<b>\$ 1,358,131,000</b>	<b>\$ 1,370,153,000</b>	<b>\$ 1,304,090,000</b>
<b>Expenses:</b>					
	<b>Prize Winnings</b>	\$ 812,547,000	\$ 872,370,000	\$ 878,331,000	\$ 829,330,000
	<b>Retailer Commissions</b>	89,259,000	94,850,000	95,632,000	90,083,000
	<b>Vendor Fees</b>	27,431,000	29,084,000	29,430,000	27,968,000
	<b>Direct Expenses</b>	\$ 929,237,000	\$ 996,304,000	\$ 1,003,393,000	\$ 947,381,000
	<b>Non Direct Expenses</b>	29,588,000	33,979,000	33,979,000	33,979,000
	<b>Total Expenses</b>	<b>\$ 958,825,000</b>	<b>\$ 1,030,283,000</b>	<b>\$ 1,037,372,000</b>	<b>\$ 981,360,000</b>
	<b>Lottery for Education Proceeds</b>	<b>\$ 321,542,000</b>	<b>\$ 327,848,000</b>	<b>\$ 332,781,000</b>	<b>\$ 322,730,000</b>
	<b>After-School Program Proceeds</b>	<b>\$ 18,170,000</b>	<b>\$ 13,000,000</b>	<b>\$ 14,000,000</b>	<b>\$ 13,000,000</b>

**TENNESSEE EDUCATION LOTTERY CORPORATION  
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

**FISCAL YEARS ENDING JUNE 30, 2015, 2016, 2017 and 2018**

		Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2017	Fiscal Year 2018
<b>Total Lottery Proceeds</b>		<b>\$1,406 - \$1,417 Million</b>	<b>\$1,462- \$1,474 Million</b>	<b>\$1,520- \$1,533 Million</b>	<b>\$1,581- \$1,594 Million</b>
<b>Lottery for Education Proceeds</b>		<b>\$334-\$339 Million</b>	<b>\$341 -\$346 Million</b>	<b>\$347-\$353 Million</b>	<b>\$354-\$360 Million</b>
<b>After-School Programs Proceeds</b>		<b>\$13 - \$14 Million</b>	<b>\$14 - \$15 Million</b>	<b>\$14 - \$15 Million</b>	<b>\$15 - \$16 Million</b>
<b>Total Education Funding</b>		<b>\$347 - \$353 Million</b>	<b>\$355 - \$361 Million</b>	<b>\$361 - \$368 Million</b>	<b>\$369 - \$376 Million</b>

Over the last five (5) fiscal years, TEL's average Lottery for Education proceeds growth was more than double (3.2%) the lottery industry's beneficiary funding growth of 1.5%, excluding the highest and lowest growth years to adjust for anomalies.

Based on TEL's and the industry year-over-year growth in the most recent fiscal years, we anticipate Lottery for Education proceeds growth in Fiscal Years 2015, 2016, 2017 and 2018 of 2%.

**After-School Programs Proceeds**

After-School Programs Proceeds are projected based the five year historical unclaimed prize experience of 1.8% of prize expense.